

Financial Statements
Lakeshore Coordinating Council
September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Lakeshore Coordinating Council	County OTTAWA
Audit Date 9/30/05	Opinion Date 3/8/06	Date Accountant Report Submitted to State: 5/5/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE AND COMPANY, PC			
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
Accountant/Signature <i>Richard Prestage : Company P.C.</i>		ZIP 48801	Date 5-4-06

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INDEPENDENT AUDITOR'S REPORT

Lakeshore Coordinating Council
Grand Haven, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Lakeshore Coordinating Council (the Council), as of and for the year ended September 30, 2005, which collectively comprise the Council's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Council as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 8, 2006 on our consideration of the Council's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages I-IV, and budgetary comparison information on page 23, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Council's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the other supplemental financial information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Council. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 8, 2006

**MANAGEMENT DISCUSSION
AND ANALYSIS**

Lakeshore Coordinating Council
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

The Lakeshore Coordinating Council (LCC) is a substance abuse coordinating agency (CA) designated by the Michigan Department of Community Health (MDCH) under Public Act 368 of 1978, as amended. LCC was formed by an interlocal agreement in 1996 and operates under the terms of the Urban Cooperation Act. Originally there were six participating counties: Allegan, Berrien, Cass, Muskegon, Ottawa, and Van Buren. As of fiscal year 2002/2003, Van Buren County aligned with another CA; and the LCC region now consists of five member counties.

LCC initially managed the funding for the Medicaid substance abuse services carve-out for the entire LCC region. Beginning in fiscal year 2002/2003, the MDCH contracted for Medicaid Specialty Services through designated Prepaid Health Plans (PHP/PIHPs), which were defined by MDCH as community mental health agencies or groups of agencies that consisted of a minimum of 20,000 Medicaid covered lives. The LCC five-county region became divided into three CMH-PIHP sub-regions, and affiliation agreements were developed with these three CMH-PIHPs. Medicaid funding for Allegan and Cass Counties came to Kalamazoo CMH; Medicaid funding for Berrien County came to Calhoun County CMH (a.k.a. Summit Pointe); and Medicaid funding for Muskegon and Ottawa Counties came to Muskegon County CMH.

Difficulties were encountered with this arrangement since each PIHP sub-region had to be managed separately despite funding being based on regional experience. Because the funding was now subdivided, LCC could no longer shift available Medicaid funding where it was needed within the region. This resulted in one PIHP sub-region lapsing Medicaid funding while another PIHP sub-region had to dip into the risk pool. It also resulted in local inequities of benefit for the consumers. Consumers from one PIHP sub-region could get authorized residential and subacute detox services without limits while consumers from another PIHP sub-region couldn't get any of these allowable services.

After MDCH's 1915-B Medicaid waiver with the federal government was renewed, creating "B" basic plan services and "B-3" additional plan services (i.e. subacute detox and residential care), these services became a consistent benefit in the LCC region and throughout the state, MDCH also issued a Technical Advisory letter that allowed Medicaid funding to be managed regionally by the CA within the CA's region.

In FY04/05, the Adult Benefit Waiver (ABW) funding block grant match requirement was 30.30 percent of total ABW expenditures. Once again, block grant funding had to be used to cover ABW expenditures that exceeded the ABW revenue received. Unfortunately, because our block grant funding was not sufficient to cover all of the ABW expenditures, this resulted in LCC's current year net operating loss – as residual local funds was drawn upon.

The most significant change in the year was prompted by a change in how PIHPs were to account for Medicaid savings and Internal Service Fund accounts with the State of Michigan. This was long after the Audited set of Financial Statements were published

Lakeshore Coordinating Council
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

last year. This created changes in the way our Medicaid savings were reported this year and caused significant increases in this year's liabilities.

Instead of including our Medicaid savings as income in our total assets, these dollars are now shown as liabilities that are due to the respective PIHP sub-regions. As a result of these liabilities, our total capital has significantly been reduced. The difference in the way Medicaid Savings and Medicaid Internal Service funds have been reported has no financial impact on LCC ultimately. As with block grant funds, these dollars are received and used solely to support the public substance abuse service system for our coverage area.

In accordance with the Public Act 2 statute, agreements were negotiated between all LCC counties to forward 50% of their respective county's PA2 funds to LCC for distribution to local service agencies for direct substance abuse treatment and/or prevention services. These agreements have been maintained and, as a result, has enabled us to show all sources of local match funding that is used for direct substance abuse services.

LCC continues to contract with the MDCH for the Block Grant funded services for residents of the LCC region. All operating advances have been withdrawn from CAs by the state, and LCC is currently reimbursed on a monthly pre-payment basis.

In FY04/05 Block Grant funding accounted for 71.1% of LCC revenues received from MDCH, Medicaid funding accounted for 26.9%, ABW funding accounted for 1.8%, and MICHild funding accounted for 0.2%.

Financial Statements:

Two types of financial statements are provided: Government-Wide Financial Statements and Fund Financial Statements.

Government-wide financial statements are designed to present the organization's finances in a layout similar to that of a private sector business. They consist of a Statement of Net Assets (providing historical balance sheet information), which shows the difference between assets and liabilities; and a Statement of Activities (providing historical income statement information), which shows revenues and expenses and the change in net assets from the previous year.

Fund financial statements offer a series of statements that focus on the major governmental funds. They report information using the modified accrual basis of accounting. For LCC, the major funds consist of the general fund and the proprietary fund. The general fund statements identify activities of our day-to-day operations.

The proprietary fund identifies funds set aside as the Internal Service Funds for Medicaid risk management. Reconciliations are also offered between the Fund Financial Statements and the Government-wide Statements.

Lakeshore Coordinating Council
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Comparison with Prior Year

LCC's total net assets show a decrease \$197,716 for fiscal year 2004/2005, as compared to the prior year.

Net Assets

	Governmental Activities	
	2005	2004
Current and Other Assets	1,370,017	1,390,174
Capital Assets – Depreciable, Net	6,617	5,414
Total Assets	<u>1,376,634</u>	<u>1,395,588</u>
Current Liabilities	1,269,647	1,090,885
Total Liabilities	<u>1,269,647</u>	<u>1,090,885</u>
Net Assets:		
Invested in Capital Assets	6,617	5,414
Restricted for Risk Management	60,376	93,565
Unrestricted	39,994	205,724
Total Net Assets	<u>\$106,987</u> =====	<u>\$304,703</u> =====

Changes in Net Assets **(\$197,716)**

Analysis of Overall Financial Position

	Governmental Activities	
	2005	2004
Revenues		
Substance Abuse Block Grant	\$4,194,299	\$4,033,131
Substance Abuse-Medicaid	1,587,975	1,621,115
MIChild	9,243	12,845
Adult Benefit Waiver	106,521	143,289
PA2	1,330,889	500,442
Other	18,773	5,499
Total Revenues	<u>7,247,444</u>	<u>6,316,321</u>
Expenses		
Payments to Subrecipients	5,464,580	5,344,374
LCC expenses	488,242	465,084
PA2	1,330,899	500,442
Total Expenses	<u>7,283,721</u>	<u>6,309,900</u>
Excess of Rev. Over (Under) Exp.	<u>(\$36,277)</u> =====	<u>\$6,421</u> =====

Lakeshore Coordinating Council
Financial Statements for the Fiscal Year Ended September 30, 2005
Management's Discussion and Analysis

Currently Known Information Affecting the Future

LCC continues to work interactively with the mental health PIHP organizations to meet the obligations of Medicaid funding and to improve the systems of care for clients with both substance abuse and mental health disorders. There is renewed discussion, primarily among PIHP organizations, to manage the substance abuse services beyond the current Medicaid arrangements. Because the current MDCH Medicaid structure makes it more complicated for the PIHPs to give attention to substance abuse services, the desire to remove those complications by administering the full substance abuse service system has been a topic of discussion. There have also been actions taken by PIHPs to create CA regions that are contingent and consistent with the current PIHP regions as they are currently defined.

The state of Michigan is struggling to balance huge budget deficits. Federal deficits are placing additional pressures on Medicaid funding and block grant. The effect of these for us on future funding for community mental health and substance abuse specialty supports and services is unknown, but the immediate outlook does not look favorable.

The MDCH has undertaken the process to re-base the rates for Medicaid capitation payments. New actuarially sound capitation rates may result in increase of Medicaid revenues in some localities, if the current Medicaid enrollment trend continues.

There is also an expectation that the Michigan Legislature will spearhead an update of the substance abuse services block grant allocation formula within the state – a step which should allow the LCC region to receive a greater proportion of the state's block grant funds, given the region's significant population growth since 1990.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

LAKESHORE COORDINATING COUNCIL
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
Assets		
Current Assets		
Cash and Cash Equivalents	\$1,067,563	\$739,928
Program Advances	-	8,820
Due from Other Governmental Units	190,956	543,475
Prepaid Expenses	10,953	4,386
Cash and Cash Equivalents - Restricted	100,545	93,565
Total Current Assets	1,370,017	1,390,174
Noncurrent Assets		
Capital Assets - Depreciable, Net	6,617	5,414
Total Assets	1,376,634	1,395,588
Liabilities		
Current Liabilities		
Accounts Payable	670,287	481,185
Deferred Revenue	4,570	4,570
Due to Other Governmental Units	584,716	117,683
Accrued Wages and Other Payroll Liabilities	6,168	4,935
Operating Advance	-	480,896
Other Liabilities	3,906	1,616
Total Current Liabilities	1,269,647	1,090,885
Net Assets		
Invested in Capital Assets	6,617	5,414
Restricted for Risk Management	60,376	93,565
Unrestricted	39,994	205,724
Total Net Assets	\$106,987	\$304,703

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

Functions	Program Revenues			Net (Expense) Revenue and Changes Net Assets	2004
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Health & Welfare - Mental Health	<u>\$7,282,518</u>	<u>-</u>	<u>\$7,229,312</u>	(\$53,206)	(\$2,776)
General Revenues					
Unrestricted Investment Earnings				18,132	4,573
Restricted Investment Earnings				<u>1,306</u>	<u>539</u>
Total General Revenues and Contributions				<u>19,438</u>	<u>5,112</u>
Transfers In (Out)				<u>(63,120)</u>	<u>-</u>
Change in Net Assets				(96,888)	2,336
Net Assets - Beginning of Year				304,703	302,367
Prior Period Adjustments				<u>(100,828)</u>	<u>-</u>
Net Assets - End of Year				<u>\$106,987</u>	<u>\$304,703</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

LAKESHORE COORDINATING COUNCIL
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Assets		
Cash and Cash Equivalents	\$1,067,563	\$739,928
Program Advances	-	8,820
Due from Other Governmental Units	190,956	543,475
Prepaid Expenses	10,953	4,386
Total Assets	<u>\$1,269,472</u>	<u>\$1,296,609</u>
Liabilities		
Accounts Payable	\$670,287	\$481,185
Due To Other Funds	22,951	-
Deferred Revenue	4,570	4,570
Due to Other Governmental Units	521,596	117,683
Accrued Wages and Other Payroll Liabilities	6,168	4,935
Operating Advance	-	480,896
Other Liabilities	3,906	1,616
Total Liabilities	<u>1,229,478</u>	<u>1,090,885</u>
Fund Balance		
Reserved for Prepaid Expenses	10,953	4,386
Unreserved and Undesignated	29,041	201,338
Total Fund Balance	<u>39,994</u>	<u>205,724</u>
Total Liabilities and Fund Balance	<u>\$1,269,472</u>	<u>\$1,296,609</u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total fund balance - governmental funds	\$39,994
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Add: capital assets	48,457
Deduct: accumulated depreciation	(41,840)

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The assets and liabilities of the internal service fund are included in
governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	<u>60,376</u>
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Net assets of governmental activities	<u><u>\$106,987</u></u>
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The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Revenues		
Federal Grants		
Substance Abuse Block Grant	\$4,194,299	\$4,033,131
Substance Abuse - Medicaid Managed Care	1,587,975	1,621,115
Adult Benefit Waiver	106,521	143,289
MI Child	9,243	12,845
Total Federal Grants	<u>5,898,038</u>	<u>5,810,380</u>
State Grants - PA2	<u>1,330,899</u>	<u>500,442</u>
Other Revenues		
Fees and Charges	375	926
Interest	18,132	4,573
Total Other Revenues	<u>18,507</u>	<u>5,499</u>
Total Revenues	<u>7,247,444</u>	<u>6,316,321</u>
Expenditures		
Payments to Subrecipients - Block Grant	3,864,944	3,648,970
Payments to Subrecipients - Medicaid Managed Care	1,439,239	1,475,159
Salaries and Wages	224,967	222,405
Fringe Benefits	93,171	95,624
Travel	12,583	15,154
Supplies and Materials	14,062	17,337
Other	129,411	114,564
Adult Benefit Waiver	153,417	207,400
MI Child	6,980	12,845
C.A. Methamphetamine Grant	14,048	-
PA 2	1,330,899	500,442
Total Expenditures	<u>7,283,721</u>	<u>6,309,900</u>
Excess Of Revenues Over Expenditures	(36,277)	6,421
Other Financing Sources (Uses)		
Operating Transfers (Out) - Internal Service Fund	<u>(28,625)</u>	<u>-</u>
Excess Of Revenues Over (Under) Expenditures And Other Sources And Uses	(64,902)	6,421
Fund Equity - Beginning of Year	205,724	199,303
Prior period adjustments	<u>(100,828)</u>	<u>-</u>
Fund Equity - End of Year	<u>\$39,994</u>	<u>\$205,724</u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds	(\$64,902)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Deduct: depreciation expense	(2,680)
Add: capital outlay	3,883
An internal service fund is used by management to cover the risk of overspending the contract. The net revenue (expense) of the fund attributable to those funds is reported with the governmental activities.	
Deduct: transfers to internal service fund	28,625
Deduct: transfers out of internal service fund	(63,120)
Add: interest income from governmental internal service fund	<u>1,306</u>
Change in net assets of governmental activities	<u><u>(\$96,888)</u></u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL
STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2005 AND 2004

	<u>Internal Service Fund</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash and Cash Equivalents - Restricted	\$100,545	\$93,565
Due From General Fund	<u>22,951</u>	<u>-</u>
Total Assets	<u>123,496</u>	<u>93,565</u>
Liabilities		
Due To Other Governmental Units	<u>63,120</u>	<u>-</u>
Net Assets		
Restricted For Risk Management	<u>\$60,376</u>	<u>\$93,565</u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Non-Operating Revenues (Expense)		
Interest Income	\$1,306	\$539
Bank Fees	-	-
Operating Transfers		
Operating Transfer In	28,625	-
Operating Transfer (Out)	(63,120)	-
Change In Net Assets	(33,189)	539
Net Assets, October 1	93,565	93,026
Net Assets, September 30	<u>\$60,376</u>	<u>\$93,565</u>

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Cash Flows from Investing Activities		
Interest Income	<u>\$1,306</u>	<u>\$539</u>
Net Cash Provided From Investing Activities	<u>1,306</u>	<u>539</u>
Cash Flows from Financing Activities		
Operating Transfers In	<u>5,674</u>	
Net Change in Cash and Cash Equivalents	6,980	539
Cash and Cash Equivalents, Beginning Of Year	<u>93,565</u>	<u>93,026</u>
Cash and Cash Equivalents, End Of Year	<u><u>\$100,545</u></u>	<u><u>\$93,565</u></u>
Reconciliation of Operating Income To Net Cash Provided		
By (Used for) Operating Activities:		
Operating Income (Loss)	-	-

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lakeshore Coordinating Council (the Council) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Council.

Reporting Entity

The Allegan, Muskegon, Ottawa Substance Abuse Agency (AMOSAA) was formed by an inter-local agreement under the Urban Cooperation Act of 1967, as amended, by the Counties of Allegan, Muskegon, and Ottawa. The agency was established for the purpose of inventory review, planning and coordination of programs and facilities which provide prevention, treatment and rehabilitation services for individuals dependent upon or abusing alcohol and drugs within the three-county area.

The Organization merged with Berrien, Cass, and Van Buren counties in April of 1996 at which time the Organization changed its name to Lakeshore Coordinating Council (the "Council"). Van Buren County elected not to be a member of the Lakeshore Coordinating Council effective October 1, 2002.

The Council has its own board of directors appointed by the county commissioners of the participating counties.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present all of the Council's funds. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Council. *Governmental activities* normally are supported by intergovernmental revenues.

Lakeshore Coordinating Council
Notes To Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Council's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Council considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end.

Lakeshore Coordinating Council
Notes To Financial Statements

Expenditures are recorded when the related fund liability is incurred. Exceptions to this general rule include (if applicable):

- Employees' vested annual leave is recorded as expenditures when utilized.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Council that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Council's primary operating fund. It accounts for all financial resources of the Council, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Council's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Council for the general fund. The budget is prepared on a basis consistent with generally accepted accounting principles and is adopted at the line item level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Council's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are stated at cost.

Michigan Compiled Laws, Section 129.91, authorized the Council to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to / from other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Inventories

The Council does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are recorded as an expenditure when purchased.

Capital Assets

Capital assets, which include equipment, software and vehicles, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Council are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Machinery and Equipment	5
Furniture and Fixtures	7
Computer Equipment	5

Deferred Revenue

Deferred revenues arise when the Council receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Council has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

Compensated Absences

It is management's policy not to accrue a liability for compensated absences. The amount of accrued compensated absences that ultimately may be paid by the Council is not considered to be material in relation to the financial statements taken as a whole. Accordingly, no provision is included in these financial statements.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the line item level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Council does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. Budgets for the budgetary funds were adopted at the functional level but have been presented at the line item level in this report.

During the year ended September 30, 2005, The Council incurred expenditures in excess of the amounts budgeted on the functional level as shown on the budget comparison schedule in the back of this report.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30, the carrying amount of the Council's cash and cash equivalents was as follows:

Cash & Cash Equivalents	2005	2004
Petty Cash	\$200	\$200
Checking, Savings, And Money Market Accounts	1,167,908	833,293
Totals	\$1,168,108	\$833,493

The bank balance at year end was \$1,184,596 of which \$200,000 was covered by federal depository insurance and \$984,596 was uninsured and uncollateralized. Some of the deposits that exceed FDIC insurance coverage are held at local banks.

The Council believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Council evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Cash and investments in the Internal Service Fund have been restricted in the amount of \$100,545 to cover the risk of overspending their authorized projected revenues covered by the Medicaid contract.

Lakeshore Coordinating Council
Notes To Financial Statements

Program Advances

Program Advances represent operating funds advanced to the following agencies or governmental units as of September 30th:

Due From:	2005	2004
Shoreline Consultation Services	-	\$8,820
Total	-	\$8,820

Due From Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2005	2004
Allegan and Ottawa Counties – P.A. 2	\$121,244	\$66,523
Muskegon & Ottawa Counties - Medicaid	69,712	-
Bureau of Substance Abuse Services	-	439,016
Berrien County Mental Health Council	-	36,582
Other Governmental Units	-	1,354
Total	\$190,956	\$543,475

Prepaid Expenses

Prepaid expenses represent payments for expenditures that will benefit future periods such as insurance, postage, dues, and maintenance agreements.

Capital Assets

A summary of changes in capital assets is as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Machinery and Equipment	\$10,634	\$1,650	-	\$12,284
Furniture and Fixtures	11,266	796	-	12,062
Computer Equipment	22,674	1,437	-	24,111
Sub-total	44,574	3,883	-	48,457
Accumulated Depreciation	(39,160)	(2,680)	-	(41,840)
Totals	\$5,414	\$1,203	-	\$6,617

Depreciation expense in the amount of \$2,680 was charged to Health and Welfare – Mental Health Program.

Deferred Revenue

Deferred revenue represents amounts received in advance of the period in which they were earned for the MI Child program.

Due to Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2005	2004
Various Providers – PA2 Funds	\$121,244	\$76,934
Various Counties - Medicaid Savings	250,925	-
State of Michigan – Prior Year Refunds	40,782	40,677
State of Michigan – Block Grant	108,573	-
Kalamazoo County CMH – ISF Fund	29,708	-
Summit Pointe PIHP – ISF Fund	33,412	-
Other	72	72
Total	\$584,716	\$117,683

Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes and related liabilities.

Leases

Lakeshore Coordinating Council leases its building from the United States Post Office. The term of the lease is three years beginning February 1, 2004 and calls for monthly rental payments of \$1,620. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the financial statements.

The following is a schedule of the future minimum lease payments required under the above operating lease as of September 30, 2005:

Year Ending September 30 th	Amount
2006	\$19,440
2007	8,100

Prior Period Adjustments

Prior period adjustments shown in this report represents the adjustment to net assets due to the following:

Adjustment To Net Assets	2005	2004
Cost settlement for fiscal year ended 9/03:		
Kalamazoo County CMH	(\$20,938)	-
Summit Pointe	(35,957)	-
Lakeshore Behavioral Health Alliance	(39,589)	-
Cost settlement for fiscal year ended 9/04:		
Kalamazoo County CMH	(876)	-
Summit Pointe	(985)	-
Lakeshore Behavioral Health Alliance	(1,789)	-
Medicaid carry over adjustment	15,772	-
Correction of accounts payable balance	(15,522)	-
Other	(944)	-
Total Increase (Decrease) To Net Assets	(\$100,828)	-

Net Assets and Fund Balance Reserves

A portion of the fund balance at September 30th has been reserved equal to the amount of prepaid expenses, since prepaid expenses do not constitute "available spendable resources."

A portion of net assets has been reserved to cover the risk of overspending their authorized projected revenues covered by the Medicaid contract. As of September 30, 2005 and 2004, the amount reserved was \$60,376 and \$93,565, respectively.

NOTE 4. OTHER INFORMATION

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Risk Management

The Council is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Council has purchased commercial insurance from independent insurance providers. Settled claims for the commercial insurance, if any, have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

Also, the Council authorized the establishment of an Internal Service Fund to account for funds to be used to cover the risk of overspending their authorized projected revenues covered by the Medicaid contract.

The contract entered into by the council provides for the use of Medicaid funding for the establishment of an Internal Service Fund that is restricted for use only to meet expected future risk corridor requirements of the contract. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Council finds it necessary to expend more to provide services necessary to carry out the contract requirements than revenue provided to the Council by the contract.

Pension Plan

Plan Description

The Council contributes to the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan. The system provides for the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty death allowance, duty death allowance, post-retirement adjustments, and death-after-retirement surviving spouse benefit, to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ending December 31, 2004.

The information presented in this section is intended only as general information regarding the retirement plan and is not a substitute for the MERS Plan Document as revised.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917-9755.

Funding Policy

During the fiscal years ended September 30, 2005, the Council's contributions to the plan were \$36,247 (including an extra contribution of \$10,300). Contributions were made in accordance with contribution requirements determined by an actuarial valuation. The Council's payroll for employees covered by the plan for the years ended September 30, 2005 was \$228,733.

Lakeshore Coordinating Council
Notes To Financial Statements

The employer contribution rate has been determined based on the entry age normal funding method. Under this method, the total actuarially-determined contribution requirement is the sum of the normal cost and the payment required to amortize the unfunded accrued liability over the amortization period of 30 years, less the accelerated funding credit, if available. The normal cost is the cost of benefit rights accruing on the basis of current service. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases. Additional information regarding the pension plan of Lakeshore Coordinating Council can be found in the annual report issued by Gabriel, Roeder, Smith & Company. A copy of that report can be requested by writing to the above actuaries at: One Towne Square, Suite 800, Southfield, Michigan, 48076.

All entries are based on the actuarial methods and assumptions that were used in the December 31, 2004 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure. The following table presents information required by GASB Statements Number 25 and 27:

GASB 25 INFORMATION (as of 12/31/04)	
Actuarial Accrued Liability:	
Retirees and Beneficiaries Currently Receiving Benefits	\$144,218
Terminated Employees Not Yet Receiving Benefits	15,545
Non-vested terminated employees	0
Current Employees – Accumulated Employee Contributions Including Allocated Investment Income Employer Financed	0 438,632
Total Actuarial Accrued Liability	598,395
Net Assets Available For Benefits At Actuarial Value (market value \$601,010)	615,714
Unfunded (Overfunded) Actuarial Accrued Liability	(\$17,319)
GASB 27 INFORMATION (as of 12/31/04)	
Fiscal Year Beginning	Oct. 1, 2006
Annual Required Contributions (ARC)	\$18,348
Amortization Factor Used – Underfunded Liabilities (30 years)	0.053632
Amortization Factor Used – Underfunded Liabilities (10 years)	0.119963

Additional information can be obtained by writing to: Lakeshore Coordinating Council, 324 Washington Street, Grand Haven, Michigan, 49417.

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

LAKESHORE COORDINATING COUNCIL
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual And Final Budget
	Original	Final	Actual	
Revenues				
Federal Grants				
Substance Abuse Block Grant	\$4,199,296	\$4,302,872	\$4,194,299	(\$108,573)
Substance Abuse - Medicaid Managed Care	1,630,688	1,750,933	1,587,709	(163,224)
Adult Benefit Waiver	99,041	106,521	106,521	-
MI Child	9,659	9,243	9,243	-
Total Federal Grants	5,938,684	6,169,569	5,897,772	(271,797)
State Grants				
PA 2	686,857	1,209,655	1,330,899	121,244
Total State Grants	686,857	1,209,655	1,330,899	121,244
Other Revenues				
Fees and Charges	-	-	641	641
Interest	3,414	9,829	18,132	8,303
Total Other Revenues	3,414	9,829	18,773	8,944
Total Revenues	6,628,955	7,389,053	7,247,444	(141,609)
Expenditures				
Payments to Subrecipients - Block Grant	3,856,107	3,947,936	3,864,944	82,992
Payments to Subrecipients - Medicaid Managed Care	1,491,366	1,611,611	1,439,239	172,372
Salaries and Wages	228,789	224,076	224,967	(891)
Fringe Benefits	85,824	91,184	93,171	(1,987)
Travel	13,300	13,173	12,583	590
Supplies and Materials	15,300	17,000	14,062	2,938
Other	139,212	142,239	129,411	12,828
Adult Benefit Waiver	99,041	106,521	153,417	(46,896)
MI Child	9,659	9,243	6,980	2,263
C.A. Methamphetamine Grant	3,500	15,247	14,048	1,199
PA 2	686,857	1,209,655	1,330,899	(121,244)
Total Expenditures	6,628,955	7,387,885	7,283,721	104,164
Excess of Revenues Over (Under) Expenditures	-	1,168	(36,277)	(37,445)
Other Financing Sources (Uses) - Transfers In (Out)	(28,625)	(28,625)	(28,625)	-
Excess of Revenues Over (Under) Expenditures And Other Sources and Uses	(28,625)	(27,457)	(64,902)	(37,445)
Fund Equity - October 1	205,724	205,724	205,724	-
Prior Period Adjustments	(100,828)	(100,828)	(100,828)	-
Fund Equity - September 30	\$76,271	\$77,439	\$39,994	(\$37,445)

The notes to the financial statements are an integral part of this statements.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Lakeshore Coordinating Council
Grand Haven, Michigan

We have audited the financial statements of the governmental activities and each major fund of Lakeshore Coordinating Council (the Council) as of and for the year ended September 30, 2005, which collectively comprise the Council's basic financial statements and have issued our report thereon dated March 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Council in a separate letter dated March 8, 2006.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 8, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Lakeshore Coordinating Council
Grand Haven, Michigan

Compliance

We have audited the compliance of Lakeshore Coordinating Council (the Council) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended September 30, 2005. The Council's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Council's management. Our responsibility is to express an opinion on the Council's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Council's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Council's compliance with those requirements.

In our opinion, the Lakeshore Coordinating Council complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of Lakeshore Coordinating Council is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Council's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

March 8, 2006

Lakeshore Coordinating Council
Schedule Of Expenditures Of Federal Awards
For The Year Ended September 30, 2005

Federal Grantor / Pass-Through Grantor / Program Title	CFDA Number	Grant / Project Number	Approved Grant Award Amount	(Accrued) Deferred Revenue At 10/01/2004	Current Year Receipts	Current Year Expenditures	(Accrued) Deferred Revenue At 09/30/2005	Adjust- ments	GPFS Federal Revenue Recognized	Prior Year Expend- itures	GPFS Page
Department of Health and Human Services											
Passed Through The Michigan Department of Community Health Bureau Of Substance Abuse Services											
Medical Assistance Program	93.778		\$1,750,933	-	\$1,517,997	\$1,587,709	(\$69,712)	-	\$1,587,709		
Substance Abuse Prevention & Treatment Block Grant	93.959		3,858,228	(\$439,016)	4,321,037	3,882,021	-	-	4,194,299	\$3,867,405	
Methamphetamine Prevention State Incentive Grant	93.243		113,279	-	40,863	40,863	-	-	-	-	
Total for 93.243			307,147	-	271,415	271,415	-	-	-	-	
			420,426	-	312,278	312,278	-	-	-	-	
MI Child Adult Benefit Waiver	93.767		9,243	-	9,243	9,243	-	-	9,243		
Total for 93.767			106,521	-	106,521	106,521	-	-	106,521		
			115,764	-	115,764	115,764	-	-	115,764		
TOTALS			<u>\$6,145,351</u>	<u>(\$439,016)</u>	<u>\$6,267,076</u>	<u>\$5,897,772</u>	<u>(\$69,712)</u>	<u>-</u>	<u>\$5,897,772</u>		5

Reconciliation to Financial Statement

Substance abuse block grant	Actual
State disability assistance	\$3,857,806
Sub-total	<u>24,215</u>
	100% state funding
State incentive grant	271,415
Methamphetamine prevention	<u>40,863</u>
Total per financial statement	<u>\$4,194,299</u>

The above amounts reflect both federal and state funding. The allocation between them is as follows:

Program/Grant	Federal %	State %
Medicaid	56.71%	43.29%
MI Child	69.70%	30.30%
Adult Benefits Waiver	69.70%	30.30%
Methamphetamine Prevention	100.00%	0.00%
State Incentive Grant	100.00%	0.00%
Substance Abuse Prevention & Treatment Block Grant	75.00%	25.00%

The notes to the financial statements are an integral part of this statement.

LAKESHORE COORDINATING COUNCIL
SCHEDULE OF FINDINGS AND QUESTIONED COST
YEAR ENDED SEPTEMBER 30, 2005

SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's opinion issues:	Unqualified.
Internal control over financial reporting:	
▪ Material weakness(es) identified?	No.
▪ Reportable condition(s) identified that are not considered to be material weakness(es)?	None reported.
Noncompliance material to financial statements noted?	No.

FEDERAL AWARDS

Internal control over major program:	
▪ Material weakness(es) identified?	No.
▪ Reportable condition(s) identified that are not considered to be material weakness(es)?	None reported.
Type of auditor's report issued on compliance for major programs:	Unqualified.
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	No.
Dollar threshold used to distinguish between type A and type B programs:	\$300,000.
Auditee qualified as low-risk auditee?	Yes.
Identification of major programs:	Substance Abuse Prevention and Treatment Block Grant - CFDA #93.959.

FINANCIAL STATEMENT FINDINGS

None.

OTHER SUPPLEMENTAL INFORMATION

Lakeshore Coordinating Council
SUBSTANCE ABUSE PREVENTION & TREATMENT
Schedule of Budgeted, Reported, and Audited Amounts
For the Year Ended September 30, 2005

SCHEDULE A

Fund Source	Budgeted (FINAL)	Reported (FINAL RER)	Audited Expenditures	Variance (Audited-Reported)	Local Match Funds
A State Agreement					
1 Community Grant	\$3,858,228	\$3,857,806	\$3,914,852	57,046 (1)	
2 SDA	24,218	24,215	24,215	0	
3 SIG	307,147	271,415	271,415	0	
4 Methamphetamine	113,279	40,863	40,863	0	
A Subtotal	4,302,872	4,194,299	4,251,345	57,046	
B Medicaid					
1 Current Year PEPM (Federal & State)	1,750,933	1,587,975	1,587,975	0	
2 Reinvestment Savings	0	0	0	0	
B Subtotal	1,750,933	1,587,975	1,587,975	0	
C Adult Benefit Waiver (ABW)					
1 Current Year PEPM (federal share only)	106,521	106,521	106,521	0	
C Subtotal	106,521	106,521	106,521	0	
D MI CHILD					
1 Current Year PEPM	9,243	6,980	6,980	0	
D Subtotal	9,243	6,980	6,980	0	
E Local					
1 Current Year PA2	1,209,655	821,275	1,330,899	509,624 (2)	1,330,899
2 PA2 Fund Balance	0	0	0	0	0
3 Other Local (R325.4152 excluding subsection (1)(b))	\$9,829	\$9,838	\$58,290	48,452 (2)(b) (3)	58,290
E Subtotal	1,219,484	831,113	1,389,189	558,076	
F Fees & Collections- Subtotal (R325.4151 (1)(d))	\$97,978	\$130,558	\$130,558	0	130,558
G Other Contracts & Sources (Subtotal)	386,994	594,816	594,816	0	
Grand Total of Subtotals A-G	7,874,025	7,452,262	8,067,384	615,122 (4)	

Amount Billable to MDCH (Section A audited subtotal)

4,251,345

Total MDCH Payments

\$4,194,299

(Overpayment)/Underpayment

\$57,046

Local Match Funds Total

\$1,519,747

Local Match Requirement [(Grand Total of Audited Expenditures-B-C-D-G) * 10%]

577,109

Local Match (Shortfall)/Excess

\$942,638

Variance Footnotes

(1) (a) CA Expenditures were over \$9,785.31, but this amount was covered by other local funding.

(b) Provider Expenditures were over \$364.67.

(c) ABW expenditures exceeded the ABW PEPM by \$46,896.

(2) (a) \$549,782.06 in PA2 revenue was not reported on RER because MDCH funding was not used in whole or in part to support these expenditures.

(b) (\$40,157.61) was moved to "Other Local" for provider expenditures that exceeded their LCC budget and was covered by other local funding sources.

(3) An additional \$8,293.96 resulted from CA Banking Interest not reported on RER.

(4) Budgeted (FINAL) is \$2,263 less than RER amount because MiChild savings is not included.

The notes to the financial statements are an integral part of this statement.

Reconciliation of PA2 Funds:

PEPM Payments Received	\$1 750 933
Medicaid Savings Carried Over	100 136
Expenditures	(1 587 975)
Medicaid Savings Carryforward	<u>(150 790)</u>
Returned to PIHP	112 304



MANAGEMENT LETTER

Board Of Directors
Lakeshore Coordinating Council

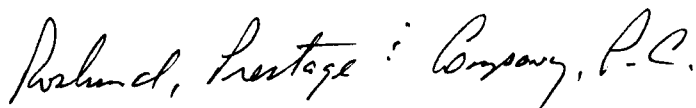
In planning and performing our audit of the financial statements for Lakeshore Coordinating Council for the fiscal year ended September 30, 2005 we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated March 8, 2006 on the financial statements of Lakeshore Coordinating Council.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,



ROSLUND, PRESTAGE AND COMPANY, P.C.
Certified Public Accountants

March 8, 2006

Lakeshore Coordinating Council
Management Letter

Sub-Recipient Monitoring

The *Audit Guidelines for the Substance Abuse Prevention and Treatment Programs* issued by the Michigan Department of Community Health require, among other things, that the Coordinating Agencies "review subcontractors' audit reports and issue a management decision on any audit findings".

During our review of this process we found that several of the subcontractors' audit reports had not been submitted to Lakeshore Coordinating Council for review in a timely manner. Although all reports had been received and reviewed for the prior fiscal year, we recommend that management communicate to each subcontractor the need to file annual audit reports to the Coordinating Agency so that the appropriate monitoring can be performed within a reasonable time period following year end. Consideration should be given for those subcontractors whose year end does not coincide with the year end of the Coordinating Agency.